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national farmers union

In Union is Strength

National Farmers Union

Submission

to the

Select Standing Committee on Bill C-130

"An Act to Implement the Free Trade Agreement
Between
Canada and the United States of America"

presented in

Ottawa, Ontario July 28, 1988

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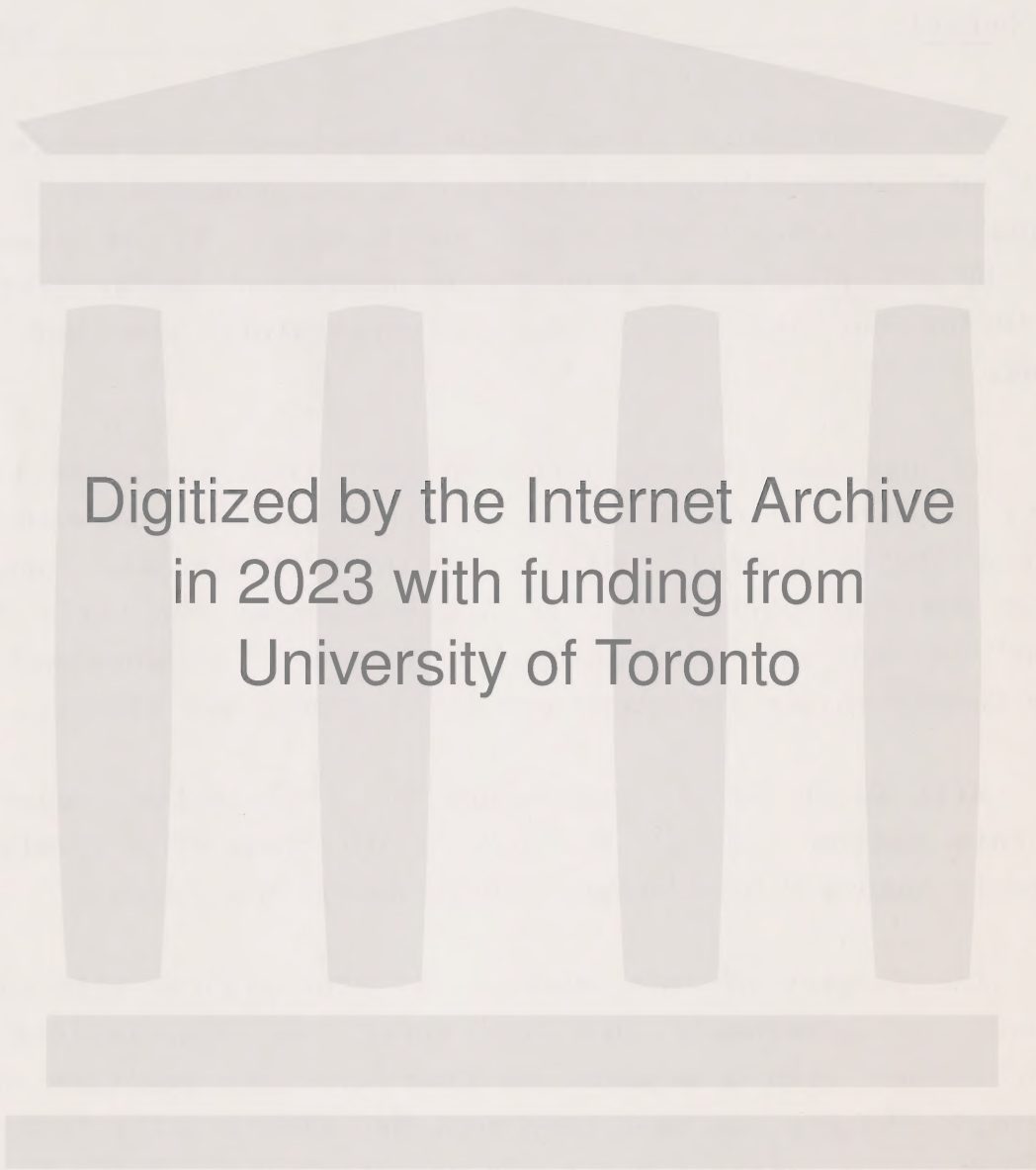
The Canada-U.S. Free Trade Agreement represents the most profound and far-reaching legislation to be proposed by a Parliament of Canada since Confederation 121 years ago. It is also the most divisive by its promise to turn the economic and social fabric of this nation inside out and create massive uncertainty over our futures as Canadians.

It has been widely conceded that this Agreement has a great deal less to do with the reduction of trade barriers between Canada and the United States than it has in causing the economic integration of the North American continent. As a consequence, the title "Free Trade Agreement" is not only misleading but devious. It does not signal to ordinary Canadians its long-term potential impact and effects.

Bill C-130 merely represents the legislative surgery required to fit this nation into an economic mould that will firmly fuse and integrate it into a U.S.-dominated North American economy.

The tragedy of this event is all the greater with the realization that our government did not enter the negotiations for this Agreement either with a mandate or from an equal position of strength with the U.S. Rather, we have been reminded almost daily from the outset of U.S. threats to restrict our trade opportunities. The U.S. obligingly demonstrated what that meant through coercive and intimidating actions against several of our exports, including shakes and shingles, potash, steel and hogs, to mention but a few.

The disparity between our bargaining power with the U.S. was further magnified by the refusal of our government to respond in kind in any effective manner to U.S. trade actions. The very distinct implication of these events is contained in the caveat the U.S. has served



upon us to establish a right to dictate our stumpage fees, to apply its definition of dumping and generally impose its license to act in its own self-interest.

In the meanwhile, the U.S. grain trade involved itself in the most destructive grain trade price war in history. While it is generally supposed the trading practices of the E.E.C. were the primary target of American trade policy, Canadian grain markets and prices were not unaffected as farmers of this nation know only too well. U.S. spending on agricultural subsidies in 1987 were $26 billion, an increase of 650% in 7 years.

U.S. trading practices in respect to both its imports and exports are, of course, only a reflection of the greater problems confronting that nation.

As the world's largest debtor nation, U.S. foreign interest payments in 1987 were $23.5 billion. In the third quarter of 1987, for the first time in 50 years, foreigners earned more on their U.S. investments than Americans earned on their investments abroad.* In the past seven-year application of Reaganomics, U.S. federal debt held by foreigners increased by 220%.

U.S. Government Debt Held by Foreigners

(In billions of dollars)

FISCAL YEAR	FEDERAL DEBT HELD BY FOREIGNERS	ANNUAL INTEREST PAID TO FOREIGNERS
1980	$121.7	$12.0
1984	175.5	19.0
1986	256.3	22.3
1987	268.4	23.5

Source: Estimates by Treasury and Commerce Departments

* The Wall Street Journal, Jan. 18, 1988, article "Cost of Paying the Foreign Piper"

In addition to its massive foreign debt problem, the U.S. Commerce Department in 1986 reported that foreign-held assets in the U.S. outstripped American-held assets abroad by a whopping $263 billion.

U.S. foreign debt obligations, states the Wall Street Journal, have in part been serviced by cuts in social services, education and training programs on which spending in 1987 was less than in 1980. Eight U.S. states still have no minimum wage laws. An additional seven have minimum wages of under $3 an hour. The U.S. still does not have a universal health care program.

Throughout the debate on free trade, we have been repeatedly told that Canadians must be competitive - but competitive against whom? Competition against U.S. workers earning less than $3 an hour would be bad enough - but the U.S. already has a virtual free-trade pact with Mexico; or rather a strip of Mexico running the length of their 3200 kilometre border. This zone contains more than 1,200 U.S. factories employing about 300,000 Mexican workers earning about 65 cents an hour. The goods produced in these "Maquiladora Industries" count as U.S. goods. Can we compete in free trade under these conditions? In this climate of competition for cheap labour, women and youth will be among the most disadvantaged.

Of further relevance in this discussions is the matter of the hugh U.S. foreign trade deficits which it has been working diligently to reduce - including with Canada. Through this Agreement the U.S. can achieve this objective by gaining unencumbered access to the resources of one of the world's richest nations and more tightly integrate Canada into the planning agendas of U.S.-based transnational corporations. Our Parliament is promising to rewrite the rules of Canada-U.S. trade relationships to conform to U.S. priorities, interpretations and definitions. We have signed an Agreement that takes precedent over all other legislation of any relevance to this new relationship. Clause 8 in Part 1 "Implementation of Agreement Generally" in Bill C-130 states this quite explicitly.

In the meanwhile, the U.S. Senate Finance Committee and the House of Representatives Ways and Means Committee have agreed that the U.S. implementation legislation should include an understanding that U.S. federal law will prevail over the Agreement in case of a conflict.

(Globe & Mail, May 26, 1988)

We have at the same time conceded a large degree of sovereignty over our affairs to the U.S. under the F.T.A. An analysis by the investment firm McLeod, Young Weir* predicts "increased U.S. and other foreign ownership and control of the Canadian economy and significantly reduced political independence and sovereignty in energy, investment and financial services. And, there is somewhat reduced sovereignty in culture, industrial policy, subsidies and possibly social programs."

The willingness to sacrifice sovereignty over the energy resource, one of our primary bargaining chips, has been confirmed by Treasury Board President, Pat Carney, in a speech to the Canadian Petroleum Association. In the Globe & Mail of July 7/88, she is quoted as stating:

> "Critics say the problem with the free trade agreement is that under its terms Canada can never impose another National Energy Program on the country. The critics are right, that was our objective in these negotiations."

It is difficult to imagine that such a massive gift to the international oil cartel of our energy resources and sovereignty over them can ever be regarded as protecting the national interests for future generations.

Article 105 extends "national treatment" with respect "to investment and to trade in goods and services." This provision leaves Canadians particularly vulnerable in the sovereignty issue since the floodgates on take-overs have literally been opened.

This action as it relates to the matter of investments has the effect of Canada granting citizenship to an additional 250 million persons. More shocking is that Canadians were not granted reciprocal treatment by the U.S.

The competitive investment pressure on our resources and assets from a 1000% increase in potential investors will have a profound effect in further expanding the foreign ownership in this country.

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* "The Canada-U.S. Free Trade Agreement" Point Form Summary and Preliminary Evaluation, Oct. 19, 1987

The assessment of Scotiabank in an October 8, 1987 analysis of the F.T.A. generally should ring a few alarm bells with government. It states:

> From the U.S. perspective, the deal is very good and the benefits are mostly delivered up front. The energy concession is of great political and strategic importance. There has been a major concession to the United States in the area of financial services, which bulked so large in the political process. Although a successful deal may not greatly enhance the leadership role and credibility of the United States, failure to achieve a deal with Canada would very seriously undermine the credibility of the United States as the leader of the Western Alliance. Finally, a successful Canada-U.S. deal carries very important political and defence advantages for the United States in this hemisphere.
>
> From a Canadian perspective, the economic benefits of a successful deal are quite considerable. However, the benefits to Canada tend to be down the line while adjustment costs and political risks will be delivered up front. The most immediate incentive for Canada to secure a deal is the grave threat posed to Canadian interests by the U.S. Trade Bill. Unlike the United States, the Canadian political decision has been taken in Canada by a majority government, and in the ordinary course of events, that judgment will not be put to the test until the next election.

Unlike the political parties in this country, the Republicans and Democrats in the U.S. are both in support of this Agreement because they understand the magnitude of their good fortune is so massive that it could not have been better. They can have their cake and eat it too.

Equally sobering is the Scotiabank opinion on the national treatment concession to services on which subject it states as follows:

> Conceding National Treatment is fundamentally to Canada's disadvantage because our market arrangements are more national and more liberal than those in the United States. The concession of National Treatment has been made without the right to extract reciprocal concessions. The Agreement specifically commits Canada not to use its powers over Right of Establishment contained in Section 307 of the Bank Act which powers could otherwise have been used to extract concessions.

The F.T.A. has been widely promoted on the grounds that it will open up a vast market of 250 million persons for the export products of this country. This justification does not take into account that 75% of all our commodity exports now are to U.S. markets and averaged about $77 billion annually in the period 1982-86. Similarly, 70% of

our total commodity imports annually averaging $64 billion, originated in the U.S. Of course, we have and must look upon the U.S. as our most valuable trading partner. The question the F.T.A. prompts is how much closer to 100% in Canada-U.S. trade should we encourage without triggering the risk of further isolating ourselves in trade with the rest of the world?

The potential for such isolation is not entirely hypothetical. A trade alliance between Europe and Japan is being advocated by members of the "Euro-Japanese Project on High Technology". The head of this think-tank group is Helmut Schmidt, the former chancellor of West Germany. A report carried on this new potential trade alliance in the May 29/87 edition of the Vancouver Sun quotes Schmidt as stating: "If the Japanese and the Europeans stand together, they are economically stronger than anybody else in the world .. stronger than any thinkable economic constellation."

The current condition of U.S. economic decline while Europe and Japan have under-developed economic ties did not escape Schmidt's attention. The article raises serious questions about the impact such an alliance could have on Canada which is now caught up in a bad deal with the U.S.

- Would a North American trade bloc be able to win a trade war with the new Eurasian cartel?
- Would Canada lose its relatively small but vital trade links with Europe?
- What would happen to the Canadian vision of the Pacific Rim?

The prospect of a Euro-Japanese trade alliance casts some skepticism on the sincerity of their endorsation of the Canada-U.S. Free Trade Agreement announced at the recent Toronto Summit of the G-7 nations.

It is obvious Canada would suffer if Europe and Japan ganged up in a trade war with the U.S., but no Canadian trade sector would experience greater difficulty than agriculture.

As previously indicated, 75% of our total commodity exports are to the U.S. By contrast, the 5-year annual average of agricultural

product exports to the U.S., 1982-1986, was only $2.1 billion or 23% of our total agricultural exports. The large bulk of these sales were comprised of red meats and slaughter animals, for which the U.S. is our major export market.

Our dependence on other foreign markets for other agricultural products is much greater. This is particularly so for grain, in which the U.S. is a major export competitor.

Central to the discussion of the grain marketing issue in the context of the F.T.A. is the emasculation of the Canadian Wheat Board as proposed through amendments to the Canadian Wheat Board Act in Section 55 of Bill C-130.

The Board's power of import licensing is critical in its ability to function effectively for the maximization of prices and markets in the interests of producers.

This government has already sacrificed its sovereign right to an independent domestic wheat-pricing policy as part of its F.T.A. commitment to create a "level playing field" in the pricing of grain used for human consumption. Through the removal of import licensing powers, the right of Canadian producers to an assured market for our domestic grain requirements is also sacrificed. The decision for sourcing future grain supplies to feed the people of Canada will be vested in the private corporate board rooms of the milling and processing industries.

We are not reassured by the provision in Article 705(1) of the F.T.A. which provides for the optional use by Canada of end-use certificates to accompany imports of grain, feed or seed, from the U.S.

It is clear from the language of the Agreement that the use of "end-use certificates" is discretionary. It is instructive to have the benefit of American interpretation. In a U.S. Government document, "Statement of Administrative Action" related to the F.T.A. Implementation Act, U.S. procedure and practice on market access for grain and grain products is described as follows:

> Regarding the provisions of paragraph one of Article 705 that provide that, once the import permit requirements are removed for the particular grain, Canada may require imports from the U.S. of that grain to be accompanied by an end-use certificate, denatured if for feed use, or accompanied by a certificate issued by Agriculture Canada if for seed use, the United States intends to pursue consultations with Canada with the goal of avoiding the application of these requirements if at all possible. If these import requirements are imposed, the United States will monitor their implementation to ensure that end-use certificates are freely provided and that the requirements do not become an undue restriction on trade. In this regard, it is important to note that the United States has not waived any of its rights under the General Agreement on Tariffs and Trade respecting the application of these import requirements by Canada.

There is no mistaking the U.S. strategy. It regards the end-use certificate as a nuisance provision and will negotiate to have its enforcement neglected.

The U.S. government intent to claim a stake in C.W.B. administrative policies does not end with the subject of end-use certificates. The U.S. administration also strongly signals its intent and interest in C.W.B. pricing policies as reflected in the following paragraphs:

> In connection with paragraph three of Article 701, the application of the term "acquisition price" in that paragraph to sales by public entities such as the Canadian Wheat Board (CWB) is not specifically delineated, although such sales are covered by that paragraph. Of particular concern is determining the "acquisition price" of wheat in the context of the initial payment and final payment system used by the CWB. Any manipulation of the pricing system by the CWB would be subject to review by the United States to ensure that Canada's obligations under paragraph three of Article 701 were not being circumvented.
>
> In order to implement Article 701(3), the United States also intends to pursue consultations with Canada regarding the price setting policy of the CWB as it affects goods exported to the United States. These consultations will be directed toward establishing a method to determine the price at which the CWB is selling agricultural goods to the United States and the CWB's acquisition price for those goods. The ideal method would be a public price setting mechanism transparent to the U.S. Government, producers and processors.

The implication of this quotation is extremely hostile to the Wheat Board concept of marketing and points to a clear intent by the U.S. administration to exercise interference with C.W.B. pricing operations and dictate the terms and conditions under which the Board can sell grain to the U.S. Reference to "a public price-setting mechanism

transparent to the U.S. Government, producers and processors" points strongly toward recommending an open-market system of selling, which in the case of Board sales, is not only impossible but impractical. It would strike at the very heart of the Board system of marketing and destroy the pooling principle which is the cornerstone of its operations.

We foresee transnational corporations seeking new power in future cross-border movements of grain and grain products. To the extent that such power is acquired at the expense of the Board being forced to relinquish corresponding control and jurisdiction, the Board's future survival and the interests of grain producers is at stake.

This Committee and the government need to issue a very clear resolve not to place at risk the destruction of the Canadian Wheat Board as a consequence of the F.T.A. This can best be accomplished by removing Section 55 from Bill C-130. We recommend that this be done.

With the signing of the F.T.A. and the accommodations which will be provided by Bill C-130, the real negotiations in implementing specific provisions in the F.T.A. will just come into the commencement stage. Under Article 701(5), Canada agreed to exclude from the transport rates established under the Western Grain Transportation Act agricultural goods originating in Canada and shipped via west coast ports for consumption in the U.S.

In having conceded that the W.G.T.A. Crow benefit payments constitute an agricultural subsidy, the elimination of W.G.T.A. rates on all agricultural goods shipped to the U.S. will be an early subject for negotiation. We can foresee that the U.S. will not be satisfied to have W.G.T.A. removed only on goods shipped to its territory from West Coast ports. If it takes no action to have these rates removed at the bilateral level, it may well initiate actions under the GATT. The entire issue of negotiating the elimination of subsidies is still to come in the next 5-7 years and the Crow benefit will be high on the agenda.

In addressing the Eighteenth Annual Convention of the NFU on January 14, 1988, Agriculture Minister John Wise stated:

"The trade agreement between Canada and the U.S. assures more dependable and predictable access to our largest market. At the same time, it safeguards Canada's agricultural marketing systems in dairy, poultry and eggs."

The implication of the Minister's statement is, of course, that it will be "business as usual" insofar as our marketing agencies are concerned.

This is not the way Daniel Amstutz, U.S. Undersecretary for International Affairs and Commodity Programs, interprets the American interest.

On January 28, 1987, in an interview with the Globe and Mail, Amstutz is quoted as saying: "The concept of marketing boards is not on the table. How they function is on the table." He further stated the U.S. would be seeking "sweeping fundamental changes."

The U.S. resolve to seek further concessions than the current import quotas on chickens, eggs and turkeys agreed upon under the F.T.A. is strongly signalled in its Statement of Administrative Action when it notes: "While Chapter Seven is a very constructive and worthwhile beginning, it certainly is not a panacea for agricultural trade barriers."

The document continues:

For example, under Article 706 of the Agreement, the United States obtained a useful liberalization of existing Canadian import quotas on chickens, turkeys, eggs, and their products. The commercial benefits of this achievement are reflected, for example, by the support for the Agreement by the Agricultural Technical Advisory Committee for Trade in Poultry and Eggs. However, the United States has not yet succeeded in eliminating these quotas, which still restrict U.S. opportunities to sell poultry, eggs and their products in the Canadian market.

Consistent with both the letter and spirit of Article 703, the United States fully intends to use its mandate for further negotiations to seek to eliminate the remaining agricultural import barriers. In addition to the Uruguay Round negotiations, the United States intends to seek further liberalization with respect to agricultural import barriers as a high priority in our bilateral relationship with Canada. Particularly where an unfavorable imbalance in market opportunities remains after the Agreement enters into force (as with respect, for example, to Canada's quantitative restrictions on imports of poultry, eggs, and egg products), the United States will attach the greatest importance to attaining this objective.

The realization of U.S. objectives as signalled in these paragraphs would effectively scuttle the operations of the national chicken, egg and turkey boards. We recognize little long-term security in our import control list. Its effectiveness, we anticipate, will depreciate rapidly once the Agreement formally comes into effect.

The one-year-old Canadian Broiler Hatching Egg Marketing Agency is already being decimated by unregulated imports of U.S. hatching eggs and chicks. Canadian producers have suffered from hatchery contract cancellations. This Board has no import licensing controls - the very power the F.T.A. is destined to remove from the Canadian Wheat Board. The Minister of International Trade, John Crosbie, has done nothing to protect producers' interests and apparently does not regard the issue as a priority.

Neither are producers reassured by the statement of Consumer and Corporate Affairs Minister, Harvie Andre, to the recent annual convention of the Consumers' Association of Canada. In his address to that group, he is quoted as stating:

> "Agricultural supply-management boards and transport regulation are current public policy issues and there is nothing in the free trade agreement that says that the government cannot alter these policies in the future."

The Minister's statement is one of hostile intent toward the future of supply-managed marketing boards that totally contradicts earlier statements by the Agriculture Minister.

The Grocery Products Manufacturers of Canada leave no doubt about their feelings on marketing boards. Their President states categorically that marketing boards without tariffs make no sense. The manufacturers seek lower farm product prices to remain competitive with U.S. processors. The farm cost formula-setting function of the Boards cannot survive under the F.T.A. once tariffs are removed and competitive market pricing is substituted.

A major casualty of the Agreement has been the grape industry. As a consequence, it will no longer be possible to discriminate in wine sales based on product origin. At least 50% of Ontario vineyards are to be destroyed and the livelihoods and careers of farmers sacrificed.

Canada has been deleted from the U.S. Meat Import Act of 1979 from the quantity of meat that may be imported without triggering an import quota under the Act. We have done likewise. We note the U.S. President under limited circumstances has the authority to impose import restrictions on Canadian meat. In this regard, the U.S. Statement of Administrative Action states:

> For purposes of determining under Article 704 whether imports of meat articles from Canada are frustrating actions taken against meat imports from third countries, the President will consider, for example, if imports of meat goods originating in Canada increased significantly as a result of displacement of those goods within the Canadian market by an increase of imports into Canada of third country meat goods.

This suggests that the U.S. President could order imports from Canada stopped even if there was only suspicion of displacement occurring as a result of increased imports from Canada or increased Canadian meat imports from third countries. Such suspicion could be cleared by a possible investigation but in the meanwhile meat exports could be stopped.

While Canadian beef and pork producers generally have welcomed the prospects for increased export opportunity to the U.S., market access will certainly not be unrestricted. An additional competitive constraint in such exports will be influenced by any further strengthening of the Canadian dollar and future feed costs.

While reduced regulations and red tape in procedures and conditions in animal trade will facilitate trade, we have at the same time eased our tight health control over animal imports from the U.S. with respect to possible bluetongue in breeding cattle and pseudorabies in live swine imported for immediate slaughter. This may carry future negative implications to the export of purebred animals to third countries.

The promise of continuing trade disputes is not laid to rest by this Agreement.

The concept of bi-national panels of whom the majority will be lawyers, will determine only whether existing laws were applied

correctly and fairly. Should the panel determine that the law was properly applied, the matter is closed. The Scotiabank analysis describes the dispute-settling mechanism as "somewhat weaker than expected" while the McLeod/Young/Weir study describes it as "nominally binding but not effectively binding."

The failure to specifically exclude water from the Agreement has created a circumstance for limitless future demands on this resource. Indeed, the recent proposal to draw water from Lake Michigan to restore the water levels of the Mississippi River signals the kind of situation that needs to be avoided. The right to inter-basin diversions were also not specifically excluded in the Agreement.

As the situation currently stands, Item 22:01 in the Canada Tariff Schedule specifically includes water under the Agreement and the Agreement, as you know, overrides both federal and provincial water policy legislation.

Article 201(1) states that "goods of a Party means domestic products as these are understood in the General Agreement on Tariffs and Trade." Tariffs covering water are included in the schedules annexed to GATT.

We urge this Committee look seriously upon the open-ended and vulnerable position in which we now are in respect to water sovereignty and recommend appropriate action to Parliament, bearing in mind that the F.T.A. overrides federal and provincial legislation on matters included in the Agreement.

From our perspective, the most desirable recommendation this Committee could make to Parliament would be that the Canada-U.S. Free Trade Agreement be not implemented and Bill C-130 be permitted to die on the order paper.

We do not believe that the Free Trade Agreement will elevate the quality of life of the vast majority of Canadians. We recognize this Agreement for what it really is - an accommodation among the giant corporations of Canada and the U.S. to restructure their corporate agendas on a continental basis.

Large corporations never have and do not now want to be restricted by national boundaries and jurisdictions which limit their investments and pursuit of growth and power. They wish only to exercise the opportunities to maximize profits and reinvest wherever they can further maximize profits. While the U.S. is Canada's largest trading partner, we must not lose sight of the fact that about 70% of our trade with the U.S. represents the exchange of goods through in-house corporate transfers.

As a farm organization, we have no hesitation in opposing this Agreement. We do not look upon the possible expansion of market opportunity for some of our farm products at the expense of others as a good reason why farmers should endorse it. This Agreement is destructive to the concept of self-sufficiency in food production. The price tag on this Agreement includes the promise of lower market prices and farm incomes, the destruction of marketing institutions and the loss of safety-net programs which are unique to this country. This Agreement is strictly directed toward exploitation based on comparative and competitive advantage.

This Agreement can only serve to further stimulate the industrialization of agriculture and erode the fabric of our rural communities.

Some people play checkers while others play chess - and this game is just beginning.

This Committee and all Members of Parliament should carefully ponder the words of Clayton Yeutter, U.S. Trade Representative, and decide whether we have been playing only checkers while the U.S. is playing chess.

On October 6, 1987, shortly after the signing of the original agreement in principle, Mr. Yeutter stated: "The Canadians don't understand what they have signed. In twenty years, they will be sucked into the U.S. economy."

We do not take lightly and are not comforted by Mr. Yeutter's prediction. Similarly, this Committee should question why the chief

U.S. Trade Representative should make such a condescending remark about Canadians and come to such a shocking conclusion.

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All of Which is Respectfully
Submitted by:

NATIONAL FARMERS UNION

national farmers union